

## Message Text

CONFIDENTIAL

PAGE 01 SANTIA 03193 052326Z

12

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 EB-11 COME-00 TRSE-00 OMB-01 IO-14

AGR-20 SWF-02 XMB-07 INT-08 DRC-01 /179 W

----- 037971

R 052245Z JUN 74

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 8865

C O N F I D E N T I A L SANTIAGO 3193

E.O. 11652: GDS

TAGS: PFOR, CI

SUBJECT: JUNTA VIEWS: ADMIRAL MERINO

REFS: SANTIAGO 3154; SANTIAGO 3182

1. SUMMARY: ADMIRAL MERINO STATES FOREIGN SECTOR OF THE ECONOMY DOING WELL, BUT DOMESTIC INFLATION CONTINUES TO BE MOST IMPORTANT PROBLEM. CONTROL OF INFLATION WILL REQUIRE CONTINUED VIGOROUS EFFORTS DIVEST PUBLIC SECTOR OF ENTERPRISES TAKEN OVER BY UP GOVERNMENT, AND MEANWHILE, STRINGENT CONTROLS ON CENTRAL GOVERNMENT BUDGET. IMF TEAM AGREES WITH GOC EFFORTS CONTROL INFLATION. SUSTAINED EFFORT REQUIRED IN AGRICULTURE SECTOR BUT RESULTS WILL TAKE TIME. MEANWHILE GOC NEEDS PL-480 HELP. ENCOURAGING INCREASES IN MINING PRODUCTION CAN BE SUSTAINED, BUT FURTHER SIGNIFICANT INCREASES WILL REQUIRE HEAVY CAPITAL OUTLAYS AND TIME. ENCOURAGING PROGRESS MADE IN GOC-ANACONDA COMPENSATION NEGOTIATIONS. END SUMMARY

2. I MADE SEPARATE CALLS ON THE FOUR MEMBERS OF THE GOVERNMENT JUNTA PRIOR TO DEPARTURE FOR WASHINGTON CONSULTATION. HIGHLIGHTS OF MEETING WITH JUNTA MEMBER MERINO JUNE 4 FOLLOW:

3. THE GENERAL ECONOMY. MERINO AGREED THE FOREIGN SECTOR  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 SANTIA 03193 052326Z

IS DOING WELL AND THAT CHILE'S PRINCIPAL PROBLEM IS DOMESTIC

INFLATION.

4. INFLATION. ADMIRAL SAID MAIN SOURCE OF INFLATION CONTINUES TO BE EXCESSIVE PUBLIC SECTOR EXPENDITURES. NOTED THAT MAIN PROBLEM HERE IS COST OF OPERATING ENTERPRISES TAKEN INTO PUBLIC SECTOR BY UP GOVERNMENT. OF A TOTAL PUBLIC SECTOR PAYROLL OF AROUND 800,000, THESE ENTERPRISES ACCOUNT FOR 600,000. TO ADD TO PROBLEM, SINCE THESE ENTERPRISES ARE NOT OPERATING PROFITABLY, CENTRAL GOVERNMENT IS FORCED TO CONTINUE TO PROVIDE SUBSIDIES TO THEM. GOVERNMENT SUBSIDIES CANNOT BE CUT OFF BECAUSE THIS WOULD PRODUCE UNACCEPTABLE UNEMPLOYMENT.

5. ONLY COURSE GOVERNMENT CAN FOLLOW IS TO CONTINUE ITS EFFORTS TO DIVEST ITSELF RAPIDLY OF THESE ENTERPRISES. A GREAT DEAL HAS BEEN DONE BUT IT IS DIFFICULT. MOST OF THESE ENTERPRISES ARE BURDENED WITH DEBT WHICH GOVERNMENT MUST INSIST UPON HAVING REPAID. OF COURSE, GOVERNMENT IS WILLING TO WORK OUT TERMS TO MAKE THESE ENTERPRISES MORE ATTRACTIVE TO PRIVATE SECTOR. CHILEAN PRIVATE SECTOR IS BEGINNING TO SHOW INTEREST AND IS MAKING EFFORTS TO PUT TOGETHER CAPITAL TO TAKE OVER SOME OF THESE ENTERPRISES. GOVERNMENT WILL CONTINUE TO MOVE AS FAST IN THIS AREAS AS POSSIBLE. MEANWHILE, ONLY RECOURSE IS TO THROTTLE BACK EXPENDITURES UNDER CENTRAL GOVERNMENT BUDGET. ESSENTIALLY THIS MEANS DELAY IN IMPLEMENTATION OF PUBLIC PROJECTS. IT IS HOPED THAT THIS CAN BE ACCOMPLISHED WITHOUT SERIOUS IMPACT ON EMPLOYMENT. THE PUBLIC HAS PRETTY WELL ACCEPTED THE FACT THAT THIS IS GOING TO BE A DIFFICULT YEAR. IT WILL BE A HARD WINTER, BUT, UNFORTUNATELY, NOONE HAS A "MAGIC WAND" WHICH WILL SOLVE THE PROBLEMS WITHOUT ATTENDANT HARDSHIP.

6. IMF. MERINO SAID IMF TEAM WHICH HAD LEFT CHILE A COUPLE OF WEEKS AO WAS IN FULL AGREEMENT WITH GOVERNMENT EFFORTS TO CONTROL INFLATION.

7. AGRICULTURE. MERINO EMPHASIZED GOVERNMENT INTEREST IN INCREASING AGRICULTURAL PRODUCTION. HOWEVER, HE OBSERVED THAT AGRICULTURAL RECOVERY CANNOT BE ACHIEVED IN A MONTH OR A YEAR, BUT WILL TAKE THREE OR FOUR YEARS. HE SAID CHILE HAS REASONABLY ASSURED AGRICULTURAL SUPPLIES UNTIL PERHAPS SEPTEMBER, BUT IS DEFINITELY GOING TO NEED U.S. HELP UNDER PL-480 TITLE I IN  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SANTIAGO 03193 052326Z

ORDER TO ASSURE FOOD SUPPLIES FOR BALANCE OF YEAR.

8. MINING. MERINO THINKS MINE PRODUCTION HAD RECOVERED WELL AND BELIEVES GAINS IN PRODUCTION CAN BE SUSTAINED. PARTS AND REPLACEMENTS COULD HAVE BEEN SERIOUS PROBLEM, BUT HE THINKS THEY ARE NOW COMING IN SUFFICIENT AMOUNTS. HE NOTED THAT FURTHER SIGNIFICANT INCREASES IN MINING OUTPUT WILL REQUIRE HEAVY CAPITAL OUTLAYS AND TIME, BECAUSE THEY INVOLVE IMPORTANT PLANT

EXPANSION.

9. NEW INVESTMENT. ADMIRAL NOTED NEED FOR NEW FOREIGN INVESTMENT BUT WAS ALSO CONCERNED ABOUT ITS INFLATIONARY IMPACT. HE SAID GOVERNMENT HAD APPROVED A LARGE NEW INVESTMENT BY CYPRUS MINES CORP FOR LEAD AND ZINC PRODUCTION.

10. COPPER COMPENSATION. MERINO SAID CURRENT NEGOTIATIONS WITH ANACONDA, WHICH JULIO PHILLIPPI IS CONDUCTING IN THE U.S., HAVE MADE VERY ENCOURAGING PROGRESS. APPARENT BOTH SIDES WANT A SETTLEMENT, AND PROSPECTS ARE VERY GOOD.

11. COMMENT. AS JUNTA MEMBER WITH RESPONSIBILITY FOR THE ECONOMY, MERINO HAS HIS EYE ON THE RIGHT TARGETS: EXCESSIVE PUBLIC SECTOR SPENDING IS THE WEAKEST PART OF THE ANTI-INFLATION EFFORT. AGRICULTURE AND MINING ARE THE SHORT-AND MEDIUM-TERM KEYS TO IMPROVING CHILE'S BALANCE OF PAYMENTS SITUATION BY REDUCING MASSIVE FOREIGN EXCHANGE OUTLAYS FOR FOOD IMPORTS WHILE INCREASING EXPORT EARNING.

POPPER

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, INFLATION, AGRICULTURE, PRIVATE ENTERPRISE, JUNTA, FOREIGN POLICY POSITION, ECONOMIC CONTROLS, FOREIGN INVESTMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 05 JUN 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** cunninfx  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974SANTIA03193  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D740143-1089  
**From:** SANTIAGO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740673/aaaackok.tel  
**Line Count:** 135  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION ARA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** SANTIAGO 3154; SANTIAGO 3182  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** cunninfx  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 18 SEP 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <18 SEP 2002 by kellew0>; APPROVED <13 FEB 2003 by cunninfx>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** JUNTA VIEWS: ADMIRAL MERINO  
**TAGS:** PFOR, EFIN, ECON, CI, (MERINO)  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005